

# FISCAL NOTE

**Bill #:** HB0133

**Title:** Professional Retirement Option for TRS members

**Primary Sponsor:** Jent, L

**Status:** As Introduced

|                   |      |                                 |      |
|-------------------|------|---------------------------------|------|
| Sponsor signature | Date | Chuck Swysgood, Budget Director | Date |
|-------------------|------|---------------------------------|------|

## Fiscal Summary

|  | <b>FY 2004<br/>Difference</b> | <b>FY 2005<br/>Difference</b> |
|--|-------------------------------|-------------------------------|
| <b>Expenditures:</b>                       |                               |                               |
| General Fund                               | \$0                           | \$11,909,372                  |
| University Funds                           | \$0                           | \$88,626                      |
| <b>Net Impact on General Fund Balance:</b> | \$0                           | (\$11,909,372)                |

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact | <input type="checkbox"/> Technical Concerns                       |
| <input type="checkbox"/> Included in the Executive Budget         | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached          | <input type="checkbox"/> Needs to be included in HB 2             |

## Fiscal Analysis

### ASSUMPTIONS:

1. Retirement benefits for members of the Teachers Retirement System (TRS) retiring on or after June 1, 2005 who are at least age 55, and have at least 30 years of creditable service will be calculated using a formula of 2.0% per year of service instead of the current formula of: service divided by 60 (i.e., 1.6667% per year of service)
2. Contributions required to fund this benefit enhancement of 1.88% will be delayed until July 1, 2004.
3. Actuarial costs are based on the assets and member data used in the July 1, 2002, actuarial valuation.
4. The exact impact this benefit enhancement will have on the System's retirement patterns is not known; therefore, no adjustment has been made to the July 1, 2002 actuarial valuation assumptions.
5. Annual salaries reported to TRS as of July 1, 2002 were, \$538,900,000 and will grow 5.0% per year.
6. Annual salaries for fiscal years 2004 and 2005 will be: FY2004 \$594,137,250 and FY2005 \$623,844,000.
7. State General fund payment to the retirement fund under section 5 of HB133 will be \$11,728,000 in FY2005 (1.88% X \$623,844,000 = \$11,728,000)
8. Impact on option one retirement: If a member retiring under the Teachers' Retirement System elects to include termination pay in the calculation of average final compensation, §19-20-716(1)(a), MCA, requires that the employee and their employer must make contributions to the Teachers' Retirement System to adequately compensate the system for the additional retirement benefits that result. Contributions are a percentage of the amount of termination pay the employee receives based on their age and number of years of service at the time of retirement. For members electing to include termination pay in the calculation of average final compensation, who will also receive an enhanced retirement benefit under HB 133, the contribution rates would increase approximately 20%. (Termination pay includes any

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lump sum payment received on account of termination and retirement, e.g., unused sick and vacation leave and early retirement cash incentives.)

9. In FY 2002 TRS reports the following option 1 retirement payouts:

|   | TRS Member Retiring With Termination<br>Pay – Fiscal Year 2002 |                   |                      |
|---|--|-------------------|----------------------|
|   | School Districts   | State<br>Agencies | University<br>System |
| Total Retired With Termination Pay      | 304  | 4                 | 46                   |
| Total Age $\geq$ 55 & Yrs Svc $\geq$ 25 | 123  | 2                 | 20                   |
| Average Years of Service                | 34   | 34                | 35                   |
| Average Age                             | 59   | 64                | 63                   |
| Employer Contributions                  | \$2,227,327  | \$15,737          | \$777,425            |
| Average Employer Contribution           | \$ 18,108  | \$ 7,868          | \$ 38,871            |

10. It is not possible to determine the precise amount of termination pay members would receive who are also eligible to retire under HB 133.

11. If the termination pay amounts that were used to create the costs in assumption 8 were to remain the same under HB 133, the costs in assumption 8 would increase by 20% (assumption 7.)

- School districts would owe TRS and additional \$445,465, which would be shared between county retirement levies (75% of the increase) and state general fund (25% of the increase).
- State agencies would owe an additional \$3,147 that would be a general fund expense.
- The Montana University System would owe an additional \$155,485 that would be shared between the general fund and other university funds. It is assumed that 43%, or \$66,859 of the additional MUS cost will be general fund.

FISCAL IMPACT:

|  | FY 2004<br><u>Difference</u> | FY 2005<br><u>Difference</u> |
|--|------------------------------|------------------------------|
| <u>Expenditures:</u>                               |                              |                              |
| Personal services – retirement payouts             | \$0                          | \$158,632                    |
| Benefits – TRS retirement benefits                 | 0                            | 11,728,000                   |
| Local assistance – school district retirement fund | <u>0</u>                     | <u>111,366</u>               |
| TOTAL  | \$0                          | \$11,997,998                 |

Funding of Expenditures:

|                   |          |               |
|-------------------|----------|---------------|
| General Fund (01) | \$0      | \$11,909,372  |
| University Funds  | <u>0</u> | <u>88,626</u> |
| TOTAL             | \$0      | \$11,997,998  |

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

|                   |     |                |
|-------------------|-----|----------------|
| General Fund (01) | \$0 | (\$11,909,372) |
| University Funds  | \$0 | (\$88,626)     |

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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The option one payouts described in assumptions 7 - 10 are paid for from the district retirement fund, which is funded with a county levy and state guaranteed tax base aid payments. On average, 75% of the cost of these increased payments will be paid with county levies. The increase in county levies would be approximately \$334,000.

LONG-RANGE IMPACTS:

If total compensation reported to TRS increases each year at the actuarially assumed rate of 5.0% per year; the General Fund contributions to TRS required under this bill will also increase each year at an annual rate of approximately 5.0%